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Japan Holds Firm On Interest Rates

Tokyo continues to resist domestic and international pressure to lower its interest rates despite the July 11 cut in the Federal Reserve Board's discount rate. Bank of Japan governor Satoshi Sumita noted that Japan's rate, which has been cut three times this year, is the lowest of the industrialized nations (along with West Germany) at 3.5 percent. He added that Japan's economy requires no additional monetary stimulus at present, even though the economy contracted in the first three months of the year.

this increase would certainly bring total defense spending well above one percent of the nation's gross national product but would also insure that the current five-year procurement program remains on tr[illegible] In yen terms, the increase would amount to Y250.5 billion ($1.6 billion at [illegible]0=$1.00), bringing total defense spending to about Y3,590.5 billion ($22.4 billion).

The report comes only days after Prime Minister Yasuhiro Nakasone's convincing win at the polls. Although the prime minister has reiterated his intentions to maintain present austerity policies, defense and foreign aid have been two significant exceptions to this rule. With a solid 300-plus seat Liberal Democratic Party majority in the lower house -- the more important of the two chambers in the Diet -- there is no reason to expect a policy change in the coming year. The only questions are the degree of the expected hike in JDA's budget and how that increase will be allocated among competing programs.

The current press reports appear to be the first round in a series of leaks consciously planted by JDA and Ministry of Finance officials in an effort to influence the budget for the next fiscal year. As a rule, the press reports somewhat later that a significantly lower figure has been "approved" by MOF. The prime minister has played an important personal role in influencing the final outcome of these negotiations, usually favoring the JDA position. All this is part of the Japanese budgetary process, which specifies that government agencies must submit preliminary requests by the end of July, with MOF establishing budgetary ceilings -- preliminary figures setting maximum budget increases for the coming fiscal year -- in the early fall.

In addition, JDA will face important decisions on new projects, including upgrading its P-3 anti-submarine planes and deciding on the FSX fighter support aircraft. The latter is perhaps one of the most controversial issues facing the agency in recent years. It has been suggested that instead of buying or co-producing an American jet -- the F-18 and F-16 were mentioned as prominent candidates -- JDA would opt for utilizing design and technological inputs of the F-18 as the basis for developing an essentially domestic hybrid. The reports suggest that McDonnell Douglas Corp. -- the developer and manufacturer of the F-18 -- would be involved in the project and that the engines for the fighter would also come from U.S. sources.

If the 7.5 percent raise is approved, it would be the highest increase in recent years for JDA. That figure, however, probably tops JDA's wish list and is not its essential level for FY 1987. Nevertheless, given the combination of tight budgets and slow economic growth in Japan, any increase will be heatedly debated.

Michael W. Chinworth

Databases, Information Industry Expanding Rapidly In Japan

According to several government and semi-governmental organizations, Japan is making rapid progress toward its goal of becoming an "information society" by the turn of the century. The office automation revolution is beginning to play a significant role in Japan's total output of goods and services. At the same time, computerization of homes and offices has created a

whole new demand for databases and related services that is just beginning to be addressed by the market.

The Economic Planning Agency issued estimates in early July on the size of the nation's information industry. Defined as the production, processing and accumulation of information and similar activities, the information industry includes sales of database services, software and software services, and all costs incurred by corporations in obtaining those services. Excluded are sales of computers and telecommunications equipment to households and public organizations except for the postal service. EPA calculates that Y30.2 trillion ($188.8 billion at Y160=$1.00) of Japan's gross national product fell under this definition during fiscal 1984 (ended March 31, 1985), equal to 10 percent of total GNP. The value of information production came to over Y3 trillion ($18.8 billion) for the fiscal year, more than triple its level seven years before. The information industry's penetration of the economy is revealed by the fact that only 38 percent of sales in FY 1984 came from companies specializing in such services, far below the 72 percent share they held in FY 1977. And EPA estimates that 9.4 percent of FY 1984's labor force was employed by the industry, or approximately 4 million persons, far above FY 1977's 800,000 level.

Database services, in particular, have been expanding at a 25 percent annual rate for the past several years, says the Database Promotion Center, a semi-public organization under the aegis of the Ministry of International Trade and Industry. The DPC's June 24 white paper states that the database market accounted for only 7 percent of fiscal 1985's total information industry sales, a surprisingly small sum. Only 110 database companies operate in Japan, lamented the report, compared with 1,700 in the United States. Of the nearly 900 databases available in Japan in FY 1985, only approximately 20 percent were of domestic origin. Finally, the DPC reports that 24,000 Japanese were database users, a paltry number compared to the estimated 400,000 U.S. users.

Slightly different figures were compiled May 20 by a MITI agency that released the country's first database register, showing steady growth in the number of databases and database firms (see Tables 1 and 2). An analysis of registered databases by topic shows that science and business-related information collections account for nearly half of the total number (see Table 3). Evidence of the importance of external markets to Japan is indicated by the fact that databases on foreign economic conditions and companies outnumber the domestic counterparts by between two- and four-to-one.

While the numbers are different, the two reports agree on some important points: the industry has shown significant growth over the past few years; and growth of available databases has been dominated by foreign providers. Japan certainly lagged behind the United States in the formation of databases, and it is encouraging to observe that foreign information services are being freely exported to Japan. It will be interesting to see whether foreigners will maintain this lead in coming years. It would certainly be lucrative: the EPA estimates that the entire information industry will quadruple in value by the year 2000.

Jon Choy

Table 1: Databases in Japan, FY 1982-FY 1985

(number and percent)

	Foreign		Domestic		
	Number	Share	Number	Share	Total
FY 1982					
Registered	472	78.1%	132	21.9%	604
Actual	334	73.2	122	26.8	456
FY 1983					
Registered	743	81.1	173	18.9	916
Actual	522	76.9	157	23.1	679
FY 1984					
Registered	1,034	83.3	208	16.7	1,242
Actual	725	78.5	199	21.5	924
FY 1985					
Registered	1,401	82.3	301	17.7	1,702
Actual	1,008	78.2	281	21.8	1,289

Note: "Actual" figures reflect the elimination of double counting.

Source: Ministry of International Trade and Industry

Table 2: Japan's Database Industry, FY 1982-FY 1985

(number of companies)

	Primary Business	Secondary Business	Total
Database Producers			
FY 1982	6	24	30
FY 1983	8	29	37
FY 1984	13	42	55
FY 1985	21	52	73
Database Distributors			
FY 1982	17	30	47
FY 1983	22	29	51
FY 1984	24	48	72
FY 1985	32	58	90
Database Research Firms			
FY 1982	3	10	13
FY 1983	3	10	13
FY 1984	4	20	24
FY 1985	9	19	28

Source: Ministry of International Trade and Industry

Table 3: Japanese Databases by Topic, FY 1984-FY 1985

(number of registered databases)

	1984	1985
General databases		
General information	39	65
News	46	68
Biographical, company data	27	43
Management	34	34
Law	20	32
Politics	12	14
Other	3	12
Subtotal	181	268
Natural sciences, technology		
General information	38	57
Life sciences*	91	130
Chemistry	82	109
Physics, electronics, computers	52	61
Patents	38	59
Industrial, mechanical	23	32
Space, geophysics, oceanography	27	30
Environment	23	26
Energy	15	24
Agriculture	13	17
Meteorology	12	14
Metallurgy	12	12
Food	10	11
Textiles	--	8
Mathematics	--	6
Other	23	39
Subtotal	459	635
Social science, culture		
General information	9	13
Library science	35	41
Education	26	24
Sociology	10	11
Population statistics	7	8
History	7	7
Art	--	7
Psychology	6	6
Linguistics	5	6
Other	12	16
Subtotal	117	139
Business		
General information	20	47
Market, product data	101	109
Foreign economic data	89	105
Domestic economic data	21	21
Foreign corporate data	59	90
Domestic corporate data	33	43
Stock and bond quotations, exchange rates	70	80
Energy	27	28
Telecommunications, transportation	--	23
Agriculture	12	15
Chemistry	7	12
Labor	8	8
Architecture, construction	--	7
Other	19	42
Subtotal	466	630
Miscellaneous		
Dictionary, glossary	8	12
Maps, charts, addresses	5	7
Other	6	11
Subtotal	19	30
Total	1,242	1,702

*Such as biology, anatomy, pharmacology and veterinary science.

Source: Ministry of International Trade and Industry